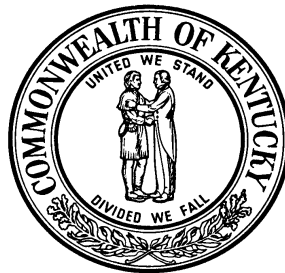


**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Charles Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

The enclosed report prepared by Simon, Underwood, & Associates, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements.

We engaged Simon, Underwood, & Associates, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Simon, Underwood, & Associates, PSC evaluated Magoffin County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MAGOFFIN COUNTY FISCAL COURT

June 30, 2008

Simon, Underwood & Associates, PSC has completed the audit of the Magoffin County Fiscal Court for fiscal year ended June 30, 2008. We have issued unqualified opinions on the governmental activities, each major fund, and aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$6,534,749 as of June 30, 2008. The fiscal court had unrestricted net assets of \$724,051 in its governmental activities as of June 30, 2008. The fiscal court had total debt principal as of June 30, 2008, of \$7,552,088 with \$753,544 due within the next year.

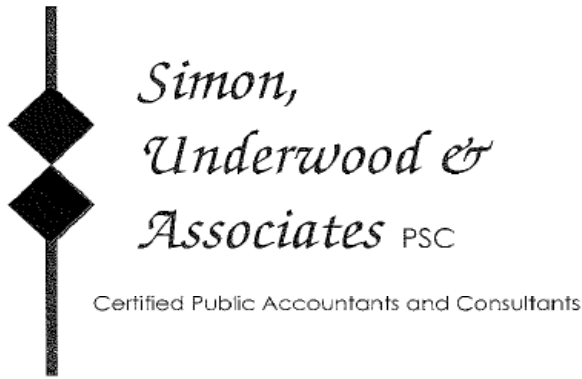
Report Comments:

2008-01	The Payroll Revolving Account Should Maintain A Zero Balance
2008-02	The Fiscal Court Should Record All Approved Budget Transfers Accurately On The 4 th Quarter Financial Statements
2008-03	The Fiscal Court Should Record All Proceeds And Payments For Debt Financing
2008-04	The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
2008-05	The Fiscal Court Should Adopt A Written Investment Policy
2008-06	The Fiscal Court Should Not Overspend Their Approved Fund Budgets

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MAGOFFIN COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
NOTES TO FINANCIAL STATEMENTS	25
BUDGETARY COMPARISON SCHEDULES	41
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	44
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	46
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	50
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	55
COMMENTS AND RECOMMENDATIONS	59
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Charles Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Magoffin County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Magoffin County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of June 30, 2008, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary Finance and Administration Cabinet

Honorable Charles Hardin, Magoffin County Judge/Executive

Members of the Magoffin County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Magoffin County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2008, on our consideration of Magoffin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- | | |
|---------|--|
| 2008-01 | The Payroll Revolving Account Should Maintain A Zero Balance |
| 2008-02 | The Fiscal Court Should Record All Approved Budget Transfers Accurately On The 4 th Quarter Financial Statements |
| 2008-03 | The Fiscal Court Should Record All Proceeds And Payments For Debt Financing |
| 2008-04 | The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically |
| 2008-05 | The Fiscal Court Should Adopt A Written Investment Policy |
| 2008-06 | The Fiscal Court Should Not Overspend Their Approved Fund Budgets |

Simon, Underwood & Associates PSC

December 11, 2008

MAGOFFIN COUNTY OFFICIALS

For The Year Ended June 30, 2008

Fiscal Court Members:

Charles Hardin	County Judge/Executive
Kellie Lee Miller	Magistrate
Stanley Holbrook	Magistrate
Pernell Lemaster	Magistrate

Other Elected Officials:

Gregory D. Allen	County Attorney
Tim Watkins	Jailer
Renee Arnett Shepherd	County Clerk
Tonya Ward	Circuit Court Clerk
Randall Jordan	Sheriff
Bill Patrick	Property Valuation Administrator
Anthony Jenkins	Coroner

Appointed Personnel:

Walter E. Hardin	Deputy Judge
Kila Keeton	County Treasurer
Susie Salyer	Finance Officer

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MAGOFFIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

MAGOFFIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	Primary Government Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 702,223
Total Current Assets	<u>702,223</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	804,003
Buildings	11,134,916
Vehicles and Equipment	501,982
Infrastructure	943,713
Total Noncurrent Assets	<u>13,384,614</u>
Total Assets	<u>14,086,837</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	339,000
Financing Obligations Payable	414,544
Total Current Liabilities	<u>753,544</u>
Noncurrent Liabilities:	
Bonds Payable	6,108,700
Financing Obligations Payable	689,844
Total Noncurrent Liabilities	<u>6,798,544</u>
Total Liabilities	<u>7,552,088</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,733,626
Restricted For:	
Debt Service	77,072
Unrestricted	724,051
Total Net Assets	<u>\$ 6,534,749</u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008

MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,088,148	\$ 898	\$ 192,316	\$ 1,425,259
Protection to Persons and Property	663,690	4,813	85,243	
General Health and Sanitation	53,002	51,048		
Social Services	30,066			
Recreation and Culture	133,477			
Roads	911,110	2,602	1,931,682	
Interest on Debt	329,950			
 Total Primary Government	 \$ 4,209,443	 \$ 59,361	 \$ 2,209,241	 \$ 1,425,259

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

**Net (Expenses) Revenues
and Changes in Net Assets**
Primary Government

**Governmental
Activities**

\$	(469,675)
	(573,634)
	(1,954)
	(30,066)
	(133,477)
	1,023,174
	<u>(329,950)</u>

	<u>(515,582)</u>
--	------------------

	462,100
	154,747
	97,341
	1,483,710
	62,181
	273,750
	<u>5,811</u>

	<u>2,539,640</u>
	2,024,058
	<u>4,510,691</u>

\$	<u><u>6,534,749</u></u>
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The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

	General Fund	Road Fund	Local Government Economic Assistance Fund	Building Admini- stration Fund
ASSETS				
Cash and Cash Equivalents	\$ 325,215	\$ 127,082	\$ 111,604	\$ 75,738
Total Assets	<u>325,215</u>	<u>127,082</u>	<u>111,604</u>	<u>75,738</u>
FUND BALANCES				
Reserved for:				
Encumbrances	9,552	21,725	9,599	
Unreserved:				
General Fund	315,663			
Special Revenue Funds		105,357	102,005	
Debt Service				75,738
Total Fund Balances	<u>\$ 325,215</u>	<u>\$ 127,082</u>	<u>\$ 111,604</u>	<u>\$ 75,738</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2008
(Continued)

Magoffin County Public Properties Corporation Justice Center	Non- Major Governmental Funds	Total Governmental Funds
\$ 1,334	\$ 61,250	\$ 702,223
1,334	61,250	702,223
	991	41,867
		315,663
	60,259	267,621
1,334		77,072
\$ 1,334	\$ 61,250	\$ 702,223

**Reconciliation of the Balance Sheet - Governmental
Funds to the Statement of Net Assets**

Total Fund Balances	\$ 702,223
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	14,847,950
Accumulated Depreciation	(1,463,336)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(1,104,388)
Bonds	(6,447,700)
Net Assets Of Governmental Activities	\$ 6,534,749

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MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	General Fund	Road Fund	Local Government Economic Assistance Fund	Building Administration Fund
REVENUES				
Taxes	\$ 1,693,389	\$	\$	\$
Excess Fees	62,181			
Licenses and Permits	183,714	2,602		
Intergovernmental	281,818	1,363,666	883,878	596,651
Charges for Services			102	
Miscellaneous	80,031	57,911	6,931	10,000
Interest	396	407	229	1,175
Total Revenues	<u>2,301,529</u>	<u>1,424,586</u>	<u>891,140</u>	<u>607,826</u>
EXPENDITURES				
General Government	930,820	10,800	48,676	
Protection to Persons and Property	12,679		36,644	
General Health and Sanitation			7,861	
Social Services			30,066	
Recreation and Culture			104,054	
Roads		1,291,037	77,664	
Debt Service	109,805	3,499	301,528	616,464
Capital Projects			315,438	1,179,747
Administration	414,748	292,570	98,054	19,377
Total Expenditures	<u>1,468,052</u>	<u>1,597,906</u>	<u>1,019,985</u>	<u>1,815,588</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>833,477</u>	<u>(173,320)</u>	<u>(128,845)</u>	<u>(1,207,762)</u>
Other Financing Sources (Uses)				
Proceeds From Sale of Assets Held For Resale		89,744		
Debt Issuance		98,900	293,407	1,245,000
Transfers To Other Funds	(619,868)		(135,085)	
Transfers From Other Funds		95,000	70,000	14,626
Total Other Financing Sources (Uses)	<u>(619,868)</u>	<u>283,644</u>	<u>228,322</u>	<u>1,259,626</u>
Net Change in Fund Balances	213,609	110,324	99,477	51,864
Fund Balances - Beginning (Restated)	111,606	16,758	12,127	23,874
Fund Balances - Ending	<u>\$ 325,215</u>	<u>\$ 127,082</u>	<u>\$ 111,604</u>	<u>\$ 75,738</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Magoffin County		
Public Properties	Non-	Total
Corporation	Major	Governmental
Justice	Governmental	Governmental
Center	Funds	Funds
\$	\$ 233,032	\$ 1,926,421
		62,181
		186,316
512,070	90,056	3,728,139
		102
	79,238	234,111
4,213	66	6,486
516,283	402,392	6,143,756
		990,296
	617,520	666,843
	59,632	67,493
		30,066
		104,054
		1,368,701
602,080	189,148	1,822,524
43,263		1,538,448
2,400	72,897	900,046
647,743	939,197	7,488,471
(131,460)	(536,805)	(1,344,715)
		89,744
		1,637,307
		(754,953)
	575,327	754,953
	575,327	1,727,051
(131,460)	38,522	382,336
132,794	22,728	319,887
\$ 1,334	\$ 61,250	\$ 702,223

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

MAGOFFIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 382,336
--	------------

Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	2,130,776
Depreciation Expense	(344,321)

The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources to Governmental Funds, While Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have no Effect on Net Assets.

Financing Obligation Proceeds	(1,637,307)
Financing Obligations Principal Payments	1,163,774
Bond Payments	328,800

Change in Net Assets of Governmental Activities	\$ 2,024,058
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**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	25
NOTE 2.	DEPOSITS	30
NOTE 3.	CAPITAL ASSETS	31
NOTE 4.	SHORT-TERM DEBT	32
NOTE 5.	LONG-TERM DEBT	33
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM.....	36
NOTE 7.	INSURANCE.....	36
NOTE 8.	PRIOR PERIOD ADJUSTMENTS	37

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Magoffin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Magoffin County does not have any discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Magoffin County Public Properties Corporation

The Magoffin County Fiscal Court appoints a voting majority of the Magoffin County Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Magoffin County Public Properties Corporation.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Magoffin County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Magoffin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not included in the financial statements of Magoffin County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs. The County has no business-type activities or fiduciary funds.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Since there is only one fund type (governmental) presented for Magoffin County, major funds are those whose total assets, liabilities, revenues, or expenditures/expenses are a least ten percent of the corresponding total for all governmental funds combined. The fiscal court may also designate any fund as major. Major individual governmental funds are reported as separate columns in the financial statements.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Building Administration Fund - The primary purpose of this fund is to account for local government economic development funds obtained by the county to construct a courthouse annex.

Magoffin County Public Properties Corporation - Justice Center - The Magoffin County, Public Properties Corporation - Justice Center accounts for the activities of the Magoffin County, Public Properties Corporation - Justice Center, a blended component unit of the county. The Magoffin County, Public Properties Corporation - Justice Center issued debt to purchase property and build facilities of the justice center. The Magoffin County, Public Properties Corporation - Justice Center entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Jail Fund, Forest Fire Fund, Solid Waste Fund, Community Center Sinking Fund, 911 Fund, and Reserve Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Solid Waste Fund, Local Government Economic Assistance Fund, Forest Fire Fund, Community Center Sinking Fund, 911 Fund, and Reserve Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Capital Projects Fund:

The Magoffin County Public Properties Corporation - Justice Center and the Building Administration Fund are presented as capital projects funds. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 31 following the assessment, and subject to lien and sale on June 30 following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. The county is reporting only infrastructure, placed in service on or after July 1, 2003.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	10
Buildings	\$ 5,000	20-50
Land Improvements	\$ 5,000	20-40
Infrastructure	\$ 5,000	10-50

G. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, and encumbrances. "Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Magoffin County Public Properties Corporation Justice Center Fund. The Department for Local Government does not require this fund to be budgeted.

Note 2. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 804,003	\$	\$	\$ 804,003
Construction In Progress	2,511,592	1,179,748	3,691,340	
Total Capital Assets Not Being Depreciated	3,315,595	1,179,748	3,691,340	804,003
Capital Assets, Being Depreciated:				
Buildings	8,145,475	4,050,041		12,195,516
Vehicles and Equipment	610,685	169,587		780,272
Infrastructure	645,419	422,740		1,068,159
Total Capital Assets Being Depreciated	9,401,579	4,642,368		14,043,947
Less Accumulated Depreciation For:				
Buildings	(817,135)	(243,465)		(1,060,600)
Vehicles and Equipment	(220,327)	(57,963)		(278,290)
Infrastructure	(81,553)	(42,893)		(124,446)
Total Accumulated Depreciation	(1,119,015)	(344,321)		(1,463,336)
Total Capital Assets, Being Depreciated, Net	8,282,564	4,298,047		12,580,611
Governmental Activities Capital Assets, Net	\$ 11,598,159	\$ 5,477,795	\$ 3,691,340	\$ 13,384,614

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 221,429
Protection to Persons and Property	19,247
General Health and Sanitation	8,910
Recreation and Culture	29,423
Roads	65,312
Total Depreciation Expense - Governmental Activities	<u>\$ 344,321</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Short-term Debt

A. Lines of Credit

In July 2007, Magoffin County signed a promissory note with Salyersville National Bank in the amount of \$300,000 at 8.25% interest rate. During the fiscal year, the County borrowed \$293,407 for construction of the Ramey Park Bridge. The outstanding balance as of June 30, 2008 was \$0.

In August 2007, Magoffin County signed a promissory note with Salyersville National Bank in the amount of \$50,000 at 9.25% interest rate. During the year, the County borrowed \$48,977 to fund the loan payment due for Solid Waste Fund operations. The outstanding balance as of June 20, 2008 was \$0.

B. Kentucky Association of Counties –Truck

On August 30, 2007, the fiscal court entered into a capital lease agreement with Kentucky Association of Counties for the purpose of financing the purchase of a truck classified as held for sale. The principal amount of the lease was \$98,900 with repayment to be made on September 20, 2009. The county is to pay interest monthly. The principal balance of the agreement was \$98,900 as of June 30, 2008.

C. Changes in Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lines of Credit	\$	\$ 342,384	\$ 342,384	\$	\$
Financing Obligations		98,900		98,900	98,900
Financing Obligations	<u>\$</u>	<u>\$ 441,284</u>	<u>\$ 342,384</u>	<u>98,900</u>	<u>\$ 98,900</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Long-term Debt

A. First Mortgage Revenue Bonds, Series 1995

In June 1995, the fiscal court entered into an agreement with Farmers Home Administration to borrow \$140,000 at 5% interest for the completion of the Magoffin County Community Center Project. The county will pay semi annual installments due on July 1 and January 1 of each year in accordance with a schedule to complete the contract. The principal balance of the agreement was \$102,700 as of June 30, 2008. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 4,000	\$ 5,135
2010	4,200	4,935
2011	4,400	4,725
2012	4,600	4,505
2013-2017	26,700	18,840
2018-2022	34,100	11,450
2023-2025	24,700	2,500
Totals	<u>\$ 102,700</u>	<u>\$ 52,090</u>

B. Magoffin County, Public Properties Corporation - Justice Center

On August 1, 2002, the Public Properties Corporation, a component unit of the Magoffin County Fiscal Court, issued \$7,855,000 in First Mortgage Revenue Bonds for the construction of the Justice Center. Semiannual principal and interest payments are required in May and November of each year beginning May 2003. The bonds will be paid in full May 2023.

The Public Properties Corporation is acting as an agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the Magoffin County Courthouse. The Public Properties Corporation expects rentals for use of the Magoffin County Courthouse to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Public Properties Corporation is reliant upon the use allowance payment in order to meet debt service on the bonds.

The AOC with the execution of the lease expressed its intention to continue to pay the full allowance payment. However, the lease does not obligate the AOC to do so.

As of June 30, 2008, the principal balance on these bonds was \$6,345,000. Debt service requirements for the remaining years are:

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Long-term Debt (Continued)

B. Magoffin County, Public Properties Corporation - Justice Center (Continued)

	<u>Governmental Activities</u>	
<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 335,000	\$ 263,592
2010	340,000	249,690
2011	360,000	235,580
2012	360,000	220,640
2013-2017	1,985,000	869,348
2018-2022	2,415,000	424,675
2023	<u>550,000</u>	<u>23,100</u>
Totals	<u>\$ 6,345,000</u>	<u>\$ 2,286,625</u>

C. Kentucky Infrastructure Authority Loan

The fiscal court entered into a loan agreement with Kentucky Infrastructure Authority, the purpose of which was to match funds required for the Appalachian Regional Commission grant received for the landfill construction. The total amount approved was \$300,000. This loan has an interest rate 3.8% and repayment began after all funds were drawn down. The county will pay semi annual installments due on June 1 and December 1 of each year in accordance with a schedule to complete the contract. The county was late in paying the amount due on June 1, 2006; payment was made in July 2006. The principal balance of the agreement was \$149,188 as of June 30, 2008. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

	<u>Governmental Activities</u>	
<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 20,644	\$ 5,764
2010	21,437	4,929
2011	22,259	4,064
2012	23,113	3,165
2013-2015	<u>61,735</u>	<u>3,750</u>
Totals	<u>\$ 149,188</u>	<u>\$ 21,672</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Long-term Debt (Continued)

D. Kentucky Area Development District - Equipment

On December 3, 2001, the fiscal court entered into a capital lease agreement with Kentucky Area Development District for the purpose of purchasing equipment. The principal of the lease was \$490,000 with repayment to be made over an eleven-year period. The county is to pay semiannual installments due in April and October in accordance with a schedule to complete the contract. The principal balance of the agreement was \$225,000 as of June 30, 2008. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 50,000	\$ 10,910
2010	55,000	8,300
2011	60,000	5,360
2012	60,000	1,870
Totals	<u>\$ 225,000</u>	<u>\$ 26,440</u>

E. Kentucky Area Development District

On May 28, 2008, the fiscal court entered into a capital lease agreement with Kentucky Area Development District for the purpose of financing a portion of the expenditures related to the Administration Building. The principal of the lease was \$635,000 with repayment to be made over a ten-year period. The county is to pay semiannual installments due in April and October in accordance with a schedule to complete the contract. The principal balance of the agreement was \$635,000 as of June 30, 2008. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 245,000	\$ 25,818
2010	35,000	17,150
2011	40,000	15,750
2012	40,000	14,150
2013-2017	225,000	44,363
2018	50,000	2,750
Totals	<u>\$ 635,000</u>	<u>\$ 119,981</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Long-term Debt (Continued)

F. Kentucky Area Development District, 2008 Series B

On February 12, 2008, the fiscal court entered into a capital lease agreement with Kentucky Area Development District for the purpose of financing a portion of the expenditures related to the Administration Building. The principal of the lease was \$610,000 with repayment to be made on June 1, 2008. The principal balance of the agreement was \$0 as of June 30, 2008.

G. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 6,776,500	\$	\$ 328,800	\$ 6,447,700	\$ 339,000
Financing Obligations	630,855	1,245,000	870,367	1,005,488	315,644
Governmental Activities					
Long-term Liabilities	<u>\$ 7,407,355</u>	<u>\$ 1,245,000</u>	<u>\$ 1,199,167</u>	<u>\$ 7,453,188</u>	<u>\$ 654,644</u>

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2008, Magoffin County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 8. Prior Period Adjustments

The prior year fund balances for the General Fund, Road Fund, Local Governmental Economic Assistance Fund and 911 Fund have been restated by \$5,386, \$12,724, \$16,760 and \$7, respectively, due to prior year voided checks. The Solid Waste Fund has been restated by \$1,508 for a prior year error in the amount due of a financing obligation. Beginning net assets of the governmental activities has also been restated in total by \$36,385 for the above.

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MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,345,254	\$ 1,607,579	\$ 1,693,389	\$ 85,810
Excess Fees		62,181	62,181	
Licenses and Permits	113,900	175,083	183,714	8,631
Intergovernmental Revenue	208,100	267,738	281,818	14,080
Miscellaneous	16,600	78,937	80,031	1,094
Interest	500	500	396	(104)
Total Revenues	<u>1,684,354</u>	<u>2,192,018</u>	<u>2,301,529</u>	<u>109,511</u>
EXPENDITURES				
General Government	801,450	1,064,996	930,820	134,176
Protection to Persons and Property	10,500	13,017	12,679	338
Debt Service	109,805	109,805	109,805	
Administration	290,936	526,595	414,748	111,847
Total Expenditures	<u>1,212,691</u>	<u>1,714,413</u>	<u>1,468,052</u>	<u>246,361</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>471,663</u>	<u>477,605</u>	<u>833,477</u>	<u>355,872</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(471,663)</u>	<u>(572,136)</u>	<u>(619,868)</u>	<u>(47,732)</u>
Total Other Financing Sources (Uses)	<u>(471,663)</u>	<u>(572,136)</u>	<u>(619,868)</u>	<u>(47,732)</u>
Net Changes in Fund Balance		(94,531)	213,609	308,140
Fund Balance - Beginning (Restated)		<u>94,531</u>	<u>111,606</u>	<u>17,075</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 325,215</u>	<u>\$ 325,215</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses and Permits	\$ -	\$ 2,602	2,602	\$ -
Intergovernmental Revenue	946,608	1,368,117	1,363,666	(4,451)
Miscellaneous	500	45,811	57,911	12,100
Interest	500	500	407	(93)
Total Revenues	947,608	1,417,030	1,424,586	7,556
EXPENDITURES				
General Government	10,800	10,800	10,800	
Roads	644,602	1,153,530	1,192,137	(38,607)
Debt Service			3,499	(3,499)
Administration	292,206	293,549	292,570	979
Total Expenditures	947,608	1,457,879	1,499,006	(41,127)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(40,849)	(74,420)	(33,571)
OTHER FINANCING SOURCES (USES)				
Proceeds From Sale of Assets Held For Resale			89,744	89,744
Transfers Out		(49,000)		49,000
Transfers In		80,000	95,000	15,000
Total Other Financing Sources (Uses)	-	31,000	184,744	153,744
Net Changes in Fund Balance		(9,849)	110,324	120,173
Fund Balance - Beginning (Restated)		4,034	16,758	12,724
Fund Balance - Ending	\$ 0	\$ (5,815)	\$ 127,082	\$ 132,897

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 954,526	\$ 983,388	\$ 883,878	\$ (99,510)
Charges for Services		103	102	(1)
Miscellaneous	1,500	17,168	6,931	(10,237)
Interest	500	500	229	(271)
Total Revenues	956,526	1,001,159	891,140	(110,019)
EXPENDITURES				
General Government	34,459	53,429	48,676	4,753
Protection to Persons and Property	23,500	36,644	36,644	
General Health and Sanitation	8,100	8,400	7,861	539
Social Services	29,000	37,666	30,066	7,600
Recreation and Culture	95,766	116,945	104,054	12,891
Roads	118,804	118,804	77,664	41,140
Capital Projects	287,000	324,078	323,559	519
Administration	149,014	159,677	98,054	61,623
Total Expenditures	745,643	855,643	726,578	129,065
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	210,883	145,516	164,562	19,046
OTHER FINANCING SOURCES (USES)				
Transfers Out	(210,883)	(210,883)	(135,085)	75,798
Transfers In		70,000	70,000	
Total Other Financing Sources (Uses)	(210,883)	(140,883)	(65,085)	75,798
Net Changes in Fund Balance		4,633	99,477	94,844
Fund Balance - Beginning (Restated)		(4,633)	12,127	16,760
Fund Balance - Ending	\$ 0	\$ 0	\$ 111,604	\$ 111,604

MAGOFFIN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Excess of Expenditures Over Appropriations

Road Fund expenditures exceeded the budget by \$41,127.

Note 3. Reconciliation of Required Supplementary Information to Statement of Revenues, Expenditures, and Changes in Fund Balances.

Reconciliation of Road Fund

Total Expenditures-Budgetary Basis	1,499,006
To Record Capital Asset Purchased	<u>98,900</u>
Total Expenditures-Modified Cash Basis	<u><u>\$ 1,597,906</u></u>

Total Other Financing Sources (Uses)-Budgetary Basis	184,744
To Record Financing Obligation Proceeds	<u>98,900</u>
Total Other Financing Sources (Uses)-Modified Cash Basis	<u><u>\$ 283,644</u></u>

Reconciliation of LGFA Fund

Total Expenditures-Budgetary Basis	726,578
To Record Debt Service budgeted as Capital Projects	301,528
To Record Interest budgeted as Capital Projects	<u>(8,121)</u>
Total Expenditures-Modified Cash Basis	<u><u>\$ 1,019,985</u></u>

Total Other Financing Sources (Uses)-Budgetary Basis	(65,085)
To Record Borrowed Money	<u>293,407</u>
Total Other Financing Sources (Uses)-Modified Cash Basis	<u><u>\$ 228,322</u></u>

**MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2008

MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2008

	Jail Fund	Forest Fire Fund	Solid Waste Fund	Community Center Sinking Fund
ASSETS				
Cash and Cash Equivalents	\$ 2,575	\$ 2,200	\$ 9,286	\$ 1
Total Assets	<u>2,575</u>	<u>2,200</u>	<u>9,286</u>	<u>1</u>
FUND BALANCES				
Reserved for:				
Encumbrances	419			
Unreserved:				
Special Revenue Funds	<u>2,156</u>	<u>2,200</u>	<u>9,286</u>	<u>1</u>
Total Fund Balances	<u>\$ 2,575</u>	<u>\$ 2,200</u>	<u>\$ 9,286</u>	<u>\$ 1</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2008
(Continued)

911 Fund	Reserve Fund	Total Non-Major Governmental Funds
<u>\$ 46,966</u>	<u>\$ 222</u>	<u>\$ 61,250</u>
<u>46,966</u>	<u>222</u>	<u>61,250</u>
572		991
<u>46,394</u>	<u>222</u>	<u>60,259</u>
<u>\$ 46,966</u>	<u>\$ 222</u>	<u>\$ 61,250</u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2008

MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2008

	Jail Fund	Forest Fire Fund	Solid Waste Fund	Community Center Sinking Fund
REVENUES				
Taxes	\$	\$ 932	\$ 28,308	\$
Intergovernmental	70,556			
Miscellaneous			52,497	
Interest	16		14	
Total Revenues	<u>70,572</u>	<u>932</u>	<u>80,819</u>	<u></u>
EXPENDITURES				
Protection to Persons and Property	441,165	6,280		
General Health and Sanitation			59,632	
Debt Service			180,118	9,030
Administration	24,942		629	30
Total Expenditures	<u>466,107</u>	<u>6,280</u>	<u>240,379</u>	<u>9,060</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(395,535)</u>	<u>(5,348)</u>	<u>(159,560)</u>	<u>(9,060)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	394,835		171,512	8,980
Total Other Financing Sources (Uses)	<u>394,835</u>	<u></u>	<u>171,512</u>	<u>8,980</u>
Net Change in Fund Balances	(700)	(5,348)	11,952	(80)
Fund Balances - Beginning (Restated)	<u>3,275</u>	<u>7,548</u>	<u>(2,666)</u>	<u>81</u>
Fund Balances - Ending	<u>\$ 2,575</u>	<u>\$ 2,200</u>	<u>\$ 9,286</u>	<u>\$ 1</u>

MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2008
(Continued)

911 Fund	Reserve Fund	Total Non-Major Governmental Funds
\$ 203,792	\$	\$ 233,032
19,500		90,056
26,741		79,238
36		66
<u>250,069</u>		<u>402,392</u>
170,075		617,520
		59,632
		189,148
<u>47,296</u>		<u>72,897</u>
<u>217,371</u>		<u>939,197</u>
32,698		(536,805)
		575,327
		<u>575,327</u>
32,698		38,522
<u>14,268</u>	<u>222</u>	<u>22,728</u>
<u>\$ 46,966</u>	<u>\$ 222</u>	<u>\$ 61,250</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



*Simon,
Underwood &
Associates* PSC

Certified Public Accountants and Consultants

The Honorable Charles Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 11, 2008. Magoffin County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Magoffin County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Magoffin County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Magoffin County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations as items 2008-01, 2008-02, 2008-03, and 2008-04 to be significant deficiencies in internal control over financial reporting.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Magoffin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the comments and recommendations as item 2008-05 and 2008-06.

We noted certain matters that we reported to management of Magoffin County in a separate letter dated December 11, 2008.

Magoffin County's response to the findings identified in our audit is described in the accompanying comments and recommendations. We did not audit Magoffin County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Magoffin County Fiscal Court, and the Kentucky Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Simon, Underwood & Associates PSC

December 11, 2008

**MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2008

**MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2008

SIGNIFICANT DEFICIENCIES

2008-01 The Payroll Revolving Account Should Maintain A Zero Balance

The payroll revolving account had an ending reconciled balance at June 30, 2008 of \$18,134. Revolving accounts are just clearing accounts. The money deposited should equal the disbursement paid from the account. If there are any monies remaining at the end of the year, a determination should be made if any additional liabilities are owed and if not reimburse the appropriate funds accordingly. We recommend that the Fiscal Court determine if liabilities exist and if not these monies should be reimbursed to the appropriate funds.

County Judge/Executive's Response: Due to numerous payroll problems from previous years, this account has not been zeroed out. This should be resolved by FY 2009 end.

2008-02 The Fiscal Court Should Record All Approved Budget Transfers Accurately On The 4th Quarter Financial Statements

During our procedures relating to budget transfers, we noted the budget transfers for revenues and expenditures were not in balance on the 4th Quarter Financial Statements. Budget transfers must be properly posted on the 4th Quarter Financial Statements to determine the total budget available for expenditure from each fund.

Without properly posting budget transfers to the 4th Quarter Financial Statements, the Fiscal Court does not know if it is operating within its authorized budget capacity. An accurate financial statement is an essential tool that allows the Fiscal Court to make sound financial decisions.

We recommend the Fiscal Court ensure that all budget transfers are correctly posted to the 4th Quarter Financial Statement and that the Fiscal Court operates on a balanced budget.

County Judge/Executive's Response: This was an error in posting to the appropriation line item from appropriation transfers.

MAGOFFIN COUNTY
 COMMENTS AND RECOMMENDATIONS
 Fiscal Year Ended June 30, 2008
 (Continued)

SIGNIFICANT DEFICIENCIES (Continued)

2008-03 The Fiscal Court Should Record All Proceeds And Payments For Debt Financing

The Fiscal Court approved several refinancing agreements, short-term borrowed monies, and KACO leases in which the proceeds or the repayment thereof was not recorded in the 4th Quarter Financial Statements. We recommend the Fiscal Court ensure that all debt is correctly posted to the 4th Quarter Financial Statement to ensure that the Fiscal Court is operating within their approved budget.

County Judge/Executive's Response: No response.

2008-04 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically

The County did not have a completed capital asset schedule for fiscal year ending June 30, 2008. A list of capital asset additions, retirements and disposals was not properly maintained. In addition, assets were retired or disposed of without proper descriptions; therefore, we were unable to identify these items in order to remove the items from the capital asset schedule. A schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. Furthermore, we believe that the capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As equipment is retired or disposed of it should be removed from the listing. We recommend that the County maintain complete and accurate capital assets schedules and records to comply with GASB 34 requirements.

The Fiscal Court should take a physical inventory of its capital assets on a regular basis (such as every two to three years) or at the beginning of a new administration to ensure that only active, in-service machinery and equipment is included on the County's financial statements. We also recommend that the County implement policies that will identify and track additions, retirements and disposed assets for the purpose of the capital asset schedule. These procedures will ensure that fixed assets are properly stated and that depreciation is being calculated accurately.

County Judge/Executive's Response: The treasurer is well aware of this requirement. An inventory list is kept and maintained. With respect to GASB 34, our office will access additional training opportunities and implement changes to correct this problem.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2008
(Continued)

STATE LAWS AND REGULATIONS

2008-05 The Fiscal Court Should Adopt A Written Investment Policy

The Fiscal Court had not adopted a written policy on investment of public funds. KRS 66.480(3) requires Fiscal Courts to have adopted, by January 1, 1995, a written investment policy. It is important to adopt a written investment policy to assure the safety and security of public funds. KRS 66.480(3) lists specific information that the written investment policy should include. We recommend the Fiscal Court adopt a written investment policy per KRS 66.480 (3). If needed, the Fiscal Court should request the County Attorney to assist in developing a written investment policy.

County Judge/Executive's Response: No response.

2008-06 The Fiscal Court Should Not Overspend Their Approved Fund Budgets

The Fiscal Court overspent their approved budget in the Road Fund and the Building Administration Fund. Because budget transfers were not correctly posted on the 4th quarter financial statements, the fiscal court did not know if it was operating within its authorized budget capacity. This caused the final budgets for the Road and Building Administration Funds to be overspent. We recommend the Fiscal Court ensure that all budget transfers are correctly posted to the 4th Quarter Financial Statement and that the Fiscal Court operates within those approved budgets.

County Judge/Executive's Response: We will correct this in the future.

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**CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

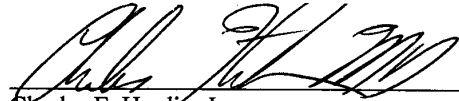
MAGOFFIN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2008**

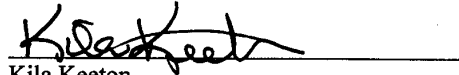
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MAGOFFIN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2008

The Magoffin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Charles E. Hardin, Jr.
County Judge/Executive



Kila Keeton
County Treasurer

